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FEDERATION OF AUTOMOBILE DEALERS ASSOCIATIONS

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FOR IMMEDIATE RELEASE

F A D A Urgently appeals to the Government for Relief to its Members from Newly Introduced Section 49A of the CGST Act.

- **Change in Credit Set-Off Methodology in CGST Act adversely Affects Automobile Dealers the Most due to Geographical peculiarities of Auto Industry**
- **Will Add to Unwarranted Burden on Auto Dealers Working Capital Requirement amidst Slowing Auto Sales**

March 7, 2019 New Delhi- Federation of Automobile Dealers Associations (F A D A), the apex body of Automobile Retail Industry feels that the recent amendment made by the Government in Section 49 of CGST Act by introducing new section 49A, will be an unwarranted blow for the Auto Retail Sector.

According to the new law which comes into effect from 1st Feb'19, IGST credit has to be first utilised and when such credit is exhausted only then the credit of CGST and SGST if any, shall be utilised against output tax liability. This amendment will impact on the method of tax payment and therefore, have major impact on the cash flow of auto retail industry while discharging its tax liability.

The main reason for this is the fact that while Auto Dealers are located across the country and are operating in their Territory of Operation within the State as Agreed with the OEM, Vehicle manufacturers (OEM's) are few in numbers and are located in Automobile Clusters in very few states. As a result, Majority of Auto Dealers purchase vehicles from Automobile Manufacturers on IGST and sell it to the end customers on SGST which they will not be able to set it off by utilizing the existing credits as according to the new law IGST has to be used first for setting off IGST followed by CGST and the remaining SGST.

This will create an additional requirement of Working Capital to the tune of **Rs. 50 Lakhs – 1 Crore for 4-wheelers and Rs. 20-50 Lakhs for 2-wheelers on a monthly basis for 15,000 Auto Dealerships** across the country.

The Automobile Dealers of the Country will be facing the following specific hardships due to this amendment:

1. Blockage of ITC available in books of account
2. Need for additional working capital to match blockage of ITC
3. Additional cost of working capital in the form of interest
4. The reduced profitability

The Rs. 5 Lakh Crore Automobile Retail Trade is already reeling under the pressure of Unexpected Low Sales from the start of the Festive Season from September as the De-growth has further increased and continues even till February coupled with high inventory build-up, high Insurance cost, squeeze in liquidity from NBFC and Banking Institutions have already dented the financial health of Auto Dealers.

F A D A earnestly appeals to the Hon'ble Prime Minister, Hon'ble Finance Minister & Members of the GST Council to Urgently re-look into this Amendment and requests for an immediate action for REVOKING the Amendment for the Auto Retail Trade as otherwise the Amendment shall have a serious impact on the sustainability of the Auto Retail Trade.

----- End of Press Release -----

About F A D A India

Founded in 1964, Federation of Automobile Dealers Associations (F A D A), is the apex national body of automobile retail industry in India engaged in the sale, service and spares of 2/3 Wheelers, Passenger Cars, UVs, Commercial Vehicles (including buses and trucks) and Tractors. F A D A India represents over 15,000 automobile dealers having 25,000 dealerships including 30 Associations of Automobile Dealers at the Regional, State and City levels accounting for 90% of market share in India. Together we employ over 2.5 million direct employees and another 2.5 million as indirect employees, making it a total of ~5 million people in the country at dealerships and service centres.

F A D A India, at the same time also actively networks with the industries and the authorities, both at the Central & State levels to provide its inputs and suggestions on the Auto Policy, Taxation, Vehicle Registration Procedure, Road Safety and Clean Environment, etc. to sustain the growth of the Automobile Retail Trade in India.